

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

8 July 1982
DDI #5637-82

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst
NIO for Economics

SUBJECT: Material in Preparation for NSC Meeting on US-European
Economic Issues

1. Attached are drafts of two papers for your background and reactions as per your request and our conversation.

(1) The US-West European Economic Relationship. This paper, which is in very rough first draft, reviews the broad trends in US-West European economic relations, compares these with Western Europe's trade with the Soviet Bloc, briefly reviews the principal current economic issues between the US and Western Europe, and assesses the current and possible future European reactions to these issues. Supporting material is included on individual European countries and on trade and other statistics. In my view the paper needs a good deal more work. In particular I believe it needs a fuller and more sophisticated statement of the basis for US-European differences over both relations with the Soviet Bloc and approaches to structural issues such as steel and agriculture. Also, although it addresses the European "concerns" over US policies, it does not adequately consider the inhibitions on going from rhetoric to action.

(2) Soviet and West European Strategies Regarding the Pipeline. This paper is an integrated look at the Soviet and West European reactions to the US pipeline decision. Much of the information in the paper was contained in two memos sent to you earlier this week by [redacted] What has been added is a more explicit examination of likely Soviet strategies in pursuing their objectives to export gas to Western Europe, develop their own gas distribution system with a minimum of dependence on the West, and make trouble in the Western alliance. The main conclusions appear to be the following:

a. The Soviets will do everything they can to get a hold of the GE rotors already in Western Europe and on order with

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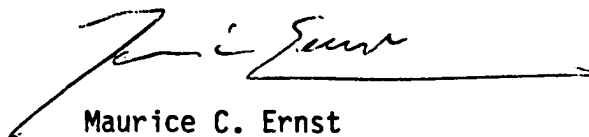
Alsthrom-Atlantique. They probably consider the chances of cooperation from the French Government to be good. These turbines alone, on top of an expanded use of the existing pipeline to capacity levels, would suffice to deliver the gas contracted for to Western Europe.

- b. If they fail to achieve (a), they will look elsewhere in Europe for turbines. They will direct their own turbines to the export pipeline only if absolutely necessary.
- c. At the same time, Moscow will ^{try} ~~pursue~~ very hard to induce a European firm to help with the development of a domestic 25 MW unit.

2. Concerning other preparations for the NSC meeting, the following steps have been taken or are planned.

- (1) About 20 papers on various issues were tasked to the various departments (CIA was not tasked).
- (2) Drafts of these papers were discussed on Thursday (8 July) at an interagency meeting chaired by Treasury, which I attended.
- (3) A revised version of the papers will be completed Friday (9th) and tabled at a SIG meeting chaired by Secretary Regan on Monday (12th). These papers will deal only with issues, not with policy options.
- (4) On a parallel track, Under Secretary Buckley will chair an interagency meeting dealing with policy options on Friday (9th).
- (5) I understand that the NSC meeting is tentatively scheduled for Thursday or Friday of next week (15th-16th).

3. Except in a very brief overview paper, the above papers do very little analysis of how the various issues relate to each other and on the more basic factors conditioning the European reaction and receptivity to US initiatives.



Maurice C. Ernst

Attachments,
As stated

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DCI/NIC/NIO/Econ: bha(8 July 82)

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